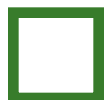


# PERAC AUDIT REPORT



## Brockton Contributory Retirement System

JAN. 1, 2004 - DEC. 31, 2006



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# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

DOMENIC J. F. RUSSO, *Chairman* | A. JOSEPH DeNUCCI, *Vice Chairman*

JOSEPH E. CONNARTON, *Executive Director*

MARY ANN BRADLEY | PAUL V. DOANE | KENNETH J. DONNELLY | JAMES M. MACHADO | DONALD R. MARQUIS

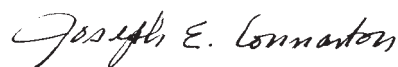
February 22, 2008

The Public Employee Retirement Administration Commission has completed an examination of the Brockton Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2004 to December 31, 2006. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission, in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission, with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiner Martin J. Feeney who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton  
Executive Director



# EXPLANATION OF FINDINGS AND RECOMMENDATIONS

## **I. Expenses:**

Some expenses are being misclassified in the general ledger. An analysis of expenses showed that service contracts, consulting fees, and insurance are being charged to administrative expense. Service contracts are also being charged to the furniture and fixtures expense account. Invoices are not being stamped paid after being processed.

### **Recommendation:**

A review of the chart of accounts should be undertaken and a determination made as to which of the System's expenses should be charged to which accounts. Invoices should be marked paid after being processed to ensure that duplicate payments of invoices are not made.

### **Board Response:**

All entries have been transferred to the new accounts created by PERAC.

All bills are stamped paid.

## **2. Current Retirees:**

As reported in the prior two audits, the Board calculates the three-year average from recorded deduction amounts. Because the Board does not receive detailed payroll information, the accuracy of the deductions is not confirmed. This allows for the possibility of generating an incorrect average salary. No department-head approval or verification of salary information is obtained in an effort to prevent miscalculations.

### **Recommendation:**

Actual payroll records should be used when calculating retirement benefits as required under G.L. c. 32, § 5. The Board should require that department heads review and confirm the payroll records of prospective retirees. Confirming retirement benefits with actual payroll records serves the related purpose of verifying that members' records are maintained accurately on an ongoing basis by the Retirement Board. Calculating benefits solely from the amount of contributions attributed to a member may result in some discrepancy in the benefit to which the member is entitled. PERAC strongly suggests the Board perform a comprehensive review of retirements calculated using this alternative method. Revisions identified as a result of this review should be submitted to PERAC for approval.

### **Board Response:**

The retirement office has purchased new software from Tyler Technologies. Their representatives have been working with the City to establish payroll reporting which should provide assurance that proper deductions are made. All retirement calculations are performed by the assistant director and recalculated separately by the executive director. The retirement documents are then sent to PERAC for further review. The Tyler software has a yearend procedure which computes each individual's annual salary by dividing total deductions by the applicable contribution rate.

## EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

### **3. Membership:**

As reported in the prior two audits, the Board does not receive adequate information with which to ascertain the accuracy of members' deductions. Reports lack fundamental detail as to what pay categories are considered subject or not subject to retirement deductions and are insufficient to determine that contributions are only taken from regular compensation.

#### **Recommendation:**

The Board must initiate a system of obtaining detailed payroll information from each unit, which shall include the following member information:

1. Name,
2. Social Security or employee number,
3. Membership date,
4. Contribution rate,
5. Compensation by type: total, regular, overtime, other,
6. Regular and 2% incremental deductions,
7. Any other information deemed appropriate.

This data must be routinely reviewed by the Board to ensure that proper deductions are being withheld. An assessment of the various pay categories should be performed in conjunction with payroll personnel from each department to further ensure that the appropriate pay types are considered regular compensation. The Executive Director should annually receive a listing of personnel who do not contribute to the Retirement System to verify accuracy in that respect.

#### **Board Response:**

As mentioned in the response to finding 2, Tyler Technologies is working with the City to establish payroll reporting. Findings 2 and 3 have been reported to the City Auditor and the Mayor. Additionally, information on pay categories and those who do not contribute to the retirement system has been requested from the City Auditor.

### **FINAL DETERMINATION:**

***PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.***

# STATEMENT OF LEDGER ASSETS AND LIABILITIES

AS OF DECEMBER 31,			
	2006	2005	2004
<b>Net Assets Available For Benefits:</b>			
Cash	\$8,423,559	\$43,411,383	\$8,317,254
Short Term Investments	0	0	4,263,477
Fixed Income Securities	58,872,621	71,532,691	48,553,282
Equities	164,947,667	135,673,963	101,684,780
Pooled International Equity Funds	42,341,859	31,854,934	24,581,534
Pooled Global Equity Funds	21,429,995	15,012,468	8,193,028
Pooled Domestic Fixed Income Funds	4,544,386	1,579,351	764,479
Pooled Global Fixed Income Funds	18,602,228	17,519,882	17,318,355
Pooled Alternative Investment Funds	8,953,596	8,651,137	9,448,024
Pooled Real Estate Funds	19,370,459	8,986,091	9,640,940
Pooled Domestic Balanced Funds	27,632,328	11,925,957	0
Interest Due and Accrued	823,331	1,028,141	743,632
Accounts Receivable	1,340,964	865,583	1,249,265
Accounts Payable	(1,419,533)	(2,652,413)	(1,034,273)
<b>Total</b>	<u>375,863,460</u>	<u>345,389,168</u>	<u>233,723,778</u>
<b>Fund Balances:</b>			
Annuity Savings Fund	62,527,575	59,560,059	56,525,750
Annuity Reserve Fund	23,560,348	22,808,103	22,192,965
Pension Fund	89,716,421	102,542,272	8,095,788
Military Service Fund	60,680	49,454	34,419
Expense Fund	0	0	0
Pension Reserve Fund	199,998,435	160,429,279	146,874,855
<b>Total</b>	<u>375,863,460</u>	<u>345,389,168</u>	<u>233,723,778</u>

## STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2004)	\$53,542,708	\$21,547,811	\$11,147,044	\$30,903	\$0	\$122,017,247	\$208,285,713
Receipts	6,419,363	651,502	18,494,105	156	1,846,200	24,881,505	52,292,831
Interfund Transfers	(2,682,444)	2,702,981	0	3,360	0	(23,897)	0
Disbursements	(753,876)	(2,709,329)	(21,545,361)	0	(1,846,200)	0	(26,854,766)
Ending Balance (2004)	56,525,751	22,192,965	8,095,788	34,419	0	146,874,855	233,723,778
Receipts	6,660,710	665,265	117,113,998	207	1,892,147	13,569,253	139,901,580
Interfund Transfers	(2,847,983)	2,847,983	0	14,828	0	(14,828)	(0)
Disbursements	(778,418)	(2,898,110)	(22,667,514)	0	(1,892,147)	0	(28,236,189)
Ending Balance (2005)	59,560,060	22,808,103	102,542,272	49,454	0	160,429,279	345,389,168
Receipts	7,119,963	684,490	11,360,179	297	2,582,216	39,569,156	61,316,301
Interfund Transfers	(3,418,344)	3,418,344	(10,929)	10,929	0	0	0
Disbursements	(734,103)	(3,350,589)	(24,175,101)	0	(2,582,216)	0	(30,842,009)
Ending Balance (2006)	<u>\$62,527,576</u>	<u>\$23,560,348</u>	<u>\$89,716,421</u>	<u>\$60,680</u>	<u>\$0</u>	<u>\$199,998,435</u>	<u>\$375,863,460</u>

# STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2006	2005	2004
<b>Annuity Savings Fund:</b>			
Members Deductions	\$6,453,139	\$6,020,420	\$5,857,346
Transfers from Other Systems	177,137	121,965	102,787
Member Make Up Payments and Re-deposits	146,964	191,852	151,592
Member Payments from Rollovers	0	0	0
Investment Income Credited to Member Accounts	342,723	326,473	307,638
Sub Total	<u>7,119,963</u>	<u>6,660,710</u>	<u>6,419,363</u>
<b>Annuity Reserve Fund:</b>			
Investment Income Credited to the Annuity Reserve Fund	<u>684,490</u>	<u>665,265</u>	<u>651,502</u>
<b>Pension Fund:</b>			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	141,469	128,857	206,357
	836,132	858,304	1,051,591
Pension Fund Appropriation	<u>10,382,579</u>	<u>116,126,837</u>	<u>17,236,157</u>
Sub Total	<u>11,360,180</u>	<u>117,113,998</u>	<u>18,494,105</u>
<b>Military Service Fund:</b>			
Contribution Received from Municipality on Account of Military Service	0	0	0
Investment Income Credited to the Military Service Fund	<u>297</u>	<u>207</u>	<u>156</u>
Sub Total	<u>297</u>	<u>207</u>	<u>156</u>
<b>Expense Fund:</b>			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	<u>2,582,216</u>	<u>1,892,147</u>	<u>1,846,200</u>
Sub Total	<u>2,582,216</u>	<u>1,892,147</u>	<u>1,846,200</u>
<b>Pension Reserve Fund:</b>			
Federal Grant Reimbursement	33,415	46,858	44,264
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	11,096	5,781	1,532
Miscellaneous Income	177	0	0
Excess Investment Income	<u>39,524,468</u>	<u>13,516,614</u>	<u>24,835,709</u>
Sub Total	<u>39,569,156</u>	<u>13,569,253</u>	<u>24,881,505</u>
<b>Total Receipts</b>	<u><u>\$61,316,302</u></u>	<u><u>\$139,901,580</u></u>	<u><u>\$52,292,831</u></u>



# STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2006	2005	2004
<b>Annuity Savings Fund:</b>			
Refunds to Members	\$536,489	\$655,966	\$495,156
Transfers to Other Systems	<u>197,614</u>	<u>122,452</u>	<u>258,720</u>
Sub Total	<u>734,103</u>	<u>778,418</u>	<u>753,876</u>
<b>Annuity Reserve Fund:</b>			
Annuities Paid	3,095,193	2,877,336	2,700,181
Option B Refunds	<u>255,396</u>	<u>20,774</u>	<u>9,148</u>
Sub Total	<u>3,350,589</u>	<u>2,898,110</u>	<u>2,709,329</u>
<b>Pension Fund:</b>			
Pensions Paid:			
Regular Pension Payments	15,264,544	14,413,927	13,552,409
Survivorship Payments	1,209,414	1,108,494	1,088,500
Ordinary Disability Payments	321,733	339,475	301,242
Accidental Disability Payments	5,672,024	5,383,033	5,286,462
Accidental Death Payments	949,363	871,663	880,841
Section 101 Benefits	147,298	139,863	135,442
3 (8) (c) Reimbursements to Other Systems	<u>610,726</u>	<u>411,059</u>	<u>300,465</u>
Sub Total	<u>24,175,102</u>	<u>22,667,514</u>	<u>21,545,361</u>
<b>Military Service Fund:</b>			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
<b>Expense Fund:</b>			
Board Member Stipend	16,550	16,067	16,500
Salaries	240,036	250,363	213,797
Legal Expenses	18,938	21,788	14,038
Travel Expenses	10,945	9,725	11,001
Administrative Expenses	106,602	173,342	227,645
Furniture and Equipment	6,022	5,533	9,130
Management Fees	1,788,355	1,166,471	1,086,678
Custodial Fees	138,909	123,858	140,911
Consultant Fees	153,750	125,000	126,500
Rent Expenses	38,384	0	0
Fiduciary Insurance	<u>63,725</u>	<u>0</u>	<u>0</u>
Sub Total	<u>2,582,216</u>	<u>1,892,147</u>	<u>1,846,200</u>
<b>Total Disbursements</b>	<u><u>\$30,842,010</u></u>	<u><u>\$28,236,189</u></u>	<u><u>\$26,854,766</u></u>

# INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2006	2005	2004
<b>Investment Income Received From:</b>			
Cash	\$686,133	\$163,920	\$64,322
Short Term Investments	0	3,250	248
Fixed Income	4,191,007	3,211,598	3,318,637
Equities	2,025,789	990,051	902,182
Pooled or Mutual Funds	1,247,009	566,310	818,712
Commission Recapture	<u>58,867</u>	<u>150,978</u>	<u>68,240</u>
<b>Total Investment Income</b>	<u>8,208,805</u>	<u>5,086,107</u>	<u>5,172,341</u>
<b>Plus:</b>			
Realized Gains	11,745,855	10,187,041	7,155,307
Unrealized Gains	51,357,340	28,468,022	30,875,687
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>823,331</u>	<u>1,028,141</u>	<u>743,632</u>
Sub Total	<u>63,926,526</u>	<u>39,683,204</u>	<u>38,774,626</u>
<b>Less:</b>			
Paid Accrued Interest on Fixed Income Securities	(592,179)	(669,876)	(275,113)
Realized Loss	(15,741,627)	(15,324,422)	(9,658,296)
Unrealized Loss	(11,639,190)	(11,630,675)	(5,537,319)
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>(1,028,141)</u>	<u>(743,632)</u>	<u>(835,034)</u>
Sub Total	<u>(29,001,137)</u>	<u>(28,368,605)</u>	<u>(16,305,762)</u>
<b>Net Investment Income</b>	<u>43,134,194</u>	<u>16,400,706</u>	<u>27,641,205</u>
<b>Income Required:</b>			
Annuity Savings Fund	342,723	326,473	307,638
Annuity Reserve Fund	684,490	665,265	651,502
Military Service Fund	297	207	156
Expense Fund	<u>2,582,216</u>	<u>1,892,147</u>	<u>1,846,200</u>
<b>Total Income Required</b>	<u>3,609,726</u>	<u>2,884,092</u>	<u>2,805,496</u>
Net Investment Income	43,134,194	16,400,706	27,641,205
Less: Total Income Required	<u>3,609,726</u>	<u>2,884,092</u>	<u>2,805,496</u>
<b>Excess Income To The Pension Reserve Fund</b>	<u>\$39,524,468</u>	<u>\$13,516,614</u>	<u>\$24,835,709</u>

# SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2006			
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash	\$8,423,559	2.2%	100%
Fixed Income	58,872,621	15.7%	30-80%
Equities	164,947,667	44.0%	50%
Pooled International Equity Funds	42,341,859	11.3%	5%
Pooled Global Equity Funds	21,429,995	5.7%	10%
Pooled Domestic Fixed Income Funds	4,544,386	1.2%	5%
Pooled International Fixed Income Funds	18,602,228	5.0%	15%
Pooled Global Fixed Income Funds	8,953,596	2.4%	15%
Pooled Alternative Investment Funds	19,370,459	5.2%	10%
Pooled Real Estate Funds	27,632,328	7.4%	10%
<b>Grand Total</b>	<b><u>375,118,698</u></b>	<b><u>100.0%</u></b>	

For the year ending December 31, 2006, the rate of return for the investments of the Brockton Retirement System was 12.55%. For the five-year period ending December 31, 2006, the rate of return for the investments of the Brockton Retirement System averaged 9.11%. For the twenty-two year period ending December 31, 2006, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Brockton Retirement System was 10.63%.

## SUPPLEMENTARY INVESTMENT REGULATIONS

The Brockton Retirement System submitted the following supplementary investment regulations, which were approved by the Public Employee Retirement Administration Commission on:

January 4, 1989

20.06(8) Sales of fixed income investments with maturities exceeding one year shall not exceed 200% of the market value of all fixed income obligations in any twelve-month period, excluding cash and short-term obligations.

20.07(6) Sales of equity investments shall not exceed 200% of the average market value of all equity holdings in any twelve-month period.

June 15, 1989

20.20.04(6) American Depositary Receipts listed on a United States stock exchange or traded over the counter in the United States, provided that all such investments not exceed 5% of the total book value of equity investments.

August 2, 1989

20.08(e) Enrollment in the Securities Lending Program offered by Boston Safe Deposit and Trust Company.

September 28, 1989

20.06(10) For the 50% of the fixed income portfolio that is managed by Loomis, Sayles & Co.: 75% of fixed income investments shall carry a quality rating of A or equivalent or higher and all fixed income investments shall have a minimum quality rating of BAA or equivalent, however, 10% of fixed income investments may have a minimum quality rating of B.

June 15, 1990

20.04(1) United States based corporations and equities of foreign corporations.

20.07(5) Equity investments shall be made only in securities listed on a United States stock exchange, traded over the counter in the United States, or listed and traded on a foreign exchange.

## SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

February 11, 1993

20.07(9) Real estate investments shall not exceed 10% of the total book value of the portfolio at the time of purchase and shall consist of real estate trusts and partnerships, provided that: (a) trust participants or limited partners do not participate in the selection of trustees or general partners and should a trust participant or limited partner be required to participate in the selection of a trustee or general partner, prior to any participation by the board, the board shall consult with PERAC to determine the appropriate course of action, and (b) such trustees or general partners retain authority in the decision making process, and (c) should an investment in a trust or limited partnership result in the direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time as divestiture of said trust or limited partnership is prudent.

November 7, 1994

20.03(1) Equity investments shall not exceed 65% of the total portfolio valued at market, including international equities which shall not exceed 15% of the total portfolio valued at market. (Subject to CMR 20.03 (4))

20.03(4) International investments shall not exceed 25% of the total portfolio valued at market.

January 25, 1996

840 CMR 21.00: Prohibited Investments

(3) Futures Contracts other than as follows:

(a) Forward Currency Contracts may be written against securities in the international portfolio by an investment advisor registered under the Investment Advisors Act of 1940 and who has been granted a waiver from PERAC for international investments.

(b) Forward Currency Contracts may be written against securities in the international portfolio to a maximum of twenty-five percent (25%) of the international portfolio's non-dollar holdings at market value. Speculative currency positions unrelated to underlying portfolio holdings are strictly prohibited.

March 21, 1996

20.03(2) At least 30% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year including Yankee Bonds which shall be limited to 10% of the total fixed income portfolio valued at market and including international fixed income investments which shall be limited to 15% of the total portfolio valued at market. (Subject to CMR 20.03(4))

## SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

October 14, 1997

- 20.09(1) Venture capital investments shall not exceed 3% of the total market value of the portfolio at the time of the investment provided that in any system with assets in excess of nineteen million dollars, venture capital investments may be made up to an amount equal to 5% of the total market value of the portfolio at the time of investment, shall be considered a separate asset class, and provided further that: (a) the board does not participate in the selection of the personnel responsible for making venture capital investments or otherwise exercise discretion in business affairs and should this be required, prior to any participation by the board, the board shall consult with PERAC to determine the appropriate course of action; (b) such personnel retain authority in the decision making process, and (c) should an investment in venture capital result in the direct ownership of securities, such shall be permitted only until such time as divestiture is prudent.
- 20.90(2) Venture capital investments shall only be made in venture capital funds operated by venture capital firms having their principal places of business in the United States and Asia.
- 20.90(3) All venture capital investments shall be made in companies which have their principal places of business in the United States and Asia.

March 15, 2000

- 16.08 In accordance with PERAC Investment Guideline 99-3, the Brockton Retirement Board may invest in Ascent Venture Partners III, L.P. The board has had a positive relationship with the vendor in its investment in Ascent Venture Partners II, L.P. and has submitted the required documentation relative to this new investment.

November 15, 2001

Exemption of the Board and INVESCO from the second sentence of 840 CMR 17.04(1)(c). This Regulation deals with the use of non-public information by managers and consultants. PERAC recognizes that, in making the investments contemplated by the INVESCO Funds delineated above, that sentence, which prohibits action until information is publicly disseminated, represents an undue burden on the ability of the Partnerships to operate. Consequently, the Brockton Retirement Board's request as it applies to 840 CMR 17.04(1)(c) is approved

Exemption of the Board and INVESCO from 840 CMR 17.04(6), except as otherwise provided for in the Partnership Agreement and/or as disclosed in INVESCO's Form ADV – This Regulation deals with the Priority of Transactions and an investment manager's obligation to prioritize board transactions and provide the board with the opportunity to act prior to the manager acting, if applicable. PERAC recognizes that this Regulation may impede the ability of partnerships such as INVESCO's to operate. Upon receipt of a copy of the provisions of the Partnership Agreement and/or disclosures in

## SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

November 15, 2001 (continued)

the INVESCO Form ADV, the Commission will approve the Brockton Retirement Board's request as it applies to 840 CMR 17.04(6).

Exemption of the Board and INVESCO from 840 CMR 19.01(7)(a)(6) with respect to the management fees and the General Partner's Carried Interest to be received by the manager or the General Partner pursuant to the (a) Subscription Agreement, (b) Agreement as defined in the side letter, and/or (c) Manager's Investment Advisory Agreement with respect to the Board's commitments to the Partnerships – PERAC recognizes the fact that the market, at the present time, is such that fee limitations, as outlined in these Regulations, result in limiting the number of partnerships available to the retirement boards. Consequently, the Brockton Retirement Board's request, as it applies to 840 CMR 19.01(7)(a)(6), is approved.

Exemption of the Board and INVESCO from 840 CMR 21.01(2), 21.01(3)(a), 21.01(4), and 21.01(5) to the extent as otherwise permitted under the applicable agreement – These Regulations prohibit certain transactions as follows: 21.01(2) prohibits the sale of securities not owned by the system at the time of the sale (short sales); 21.01(3)(a) permits the use of forward currency contracts in limited circumstances; 21.01(4) prohibits the use of call options; 21.01(5) prohibits the purchase of options other than as required to close out option positions. PERAC has received a letter dated August 22, 2000 from INVESCO that clarifies the possible use of options, futures, or other derivatives. In pertinent part, the letter states as follows:

Exemption of the Board and INVESCO from 840 CMR 19.01(7)(a)(6) with respect to the management fees and the General Partner's Carried Interest to be received by the manager or the General Partner pursuant to the (a) Subscription Agreement, (b) Agreement as defined in the side letter, and/or (c) Manager's Investment Advisory Agreement with respect to the Board's commitments to the Partnerships – PERAC recognizes the fact that the market, at the present time, is such that fee limitations, as outlined in these Regulations, result in limiting the number of partnerships available to the retirement boards. Consequently, the Brockton Retirement Board's request, as it applies to 840 CMR 19.01(7)(a)(6), is approved.

## SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

November 15, 2001 (continued)

Exemption of the Board and INVESCO from 840 CMR 21.01(2), 21.01(3)(a), 21.01(4), and 21.01(5) to the extent as otherwise permitted under the applicable agreement – These Regulations prohibit certain transactions as follows: 21.01(2) prohibits the sale of securities not owned by the system at the time of the sale (short sales); 21.01(3)(a) permits the use of forward currency contracts in limited circumstances; 21.01(4) prohibits the use of call options; 21.01(5) prohibits the purchase of options other than as required to close out option positions. PERAC has received a letter dated August 22, 2000 from INVESCO that clarifies the possible use of options, futures, or other derivatives. In pertinent part, the letter states as follows:

“Although the above referenced funds do not expect to use options, futures, or other derivatives other than infrequently, if at all, futures and/or options would be used only for non-speculative true hedging purposes. In general, we would anticipate their use, if at all, for among other reasons to protect downside risk on public securities of companies distributed to the funds by the underlying portfolio funds we invest in and where a commitment to a fund was made in a non US currency to limit currency risk of the funds.”

PERAC approves the exemption of the Board and INVESCO from 840 CMR 21.01(2), 21.01(3)(a), 21.01(4), and 21.01(5) for the limited purpose of protecting downside risk on public securities of companies distributed to the funds by underlying portfolio funds and to limit currency risk of the funds where a commitment to a fund was made in a non-U.S. currency.

August 13, 2002

Notwithstanding the provisions of the Public Employee Retirement Administration Commission Regulations, the Brockton Retirement Board may invest funds of the Brockton Contributory Retirement System (the “System”) with the real estate investment fund known as Realty Associates Fund VI Corporation (the “Fund”), and while the assets of the System are so invested,



## SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

August 13, 2002 (continued)

(i) the assets of the System shall be deemed to include, for purposes of applying the rules set forth in 840 CMR 16.00 et seq. and 17.00 et seq., the System's interest in the Fund but not any underlying assets of the Fund or the operating partnership in which the Fund is invested (the "OP"); provided that, at all times, the Fund and the OP qualify as "venture capital operating companies" or "real estate operating companies" within the meaning of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and the regulations promulgated thereunder, or the assets of the Fund and the OP otherwise would not be treated as plan assets under ERISA; and

ii) the limitation set forth in 840 CMR 19.01(6) shall be deemed satisfied if no single investment of the OP, valued at cost, exceeds 20% of the capital commitments to the Fund and the OP.

December 8, 2003

16.08

In accordance with PERAC Investment Guideline 99-3, the Brockton Retirement Board may invest in Ascent Venture Partners IV, L.P. The Board has had a satisfactory relationship with Ascent Venture Partners through investment in the firm's two prior partnerships. The Board seeks to maintain its targeted level of investment in venture capital as two of its current investments in this asset class are in the process of returning capital.

# NOTES TO FINANCIAL STATEMENTS

## NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Brockton Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

### ADMINISTRATION

There are 106 contributory retirement systems for public employees in Massachusetts. Each system is governed by a retirement board, and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements, and a uniform accounting and funds structure for all systems.

### PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal, or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 3 classes of membership in the Retirement System:

#### **Group 1:**

General employees, including clerical, administrative, technical, and all other employees not otherwise classified.

#### **Group 2:**

Certain specified hazardous duty positions.

#### **Group 4:**

Police officers, firefighters, and other specified hazardous positions.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

### RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

### RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire no later than the end of month they attain age 65. There is no mandatory retirement age for employees in Group 1.

### SUPERANNUATION RETIREMENT

A member is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

## NOTES TO FINANCIAL STATEMENTS (Continued)

### AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year average salary. For veterans as defined in G.L. c. 32, § 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

- Salary is defined as gross regular compensation.
- Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

### DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit. Elected officials and others who were hired prior to 1978 may be vested after 6 years in accordance with G.L. c. 32, § 10.

The participant's accrued benefit is payable commencing at age 55, or the completion of 20 years, or may be deferred until later at the participant's option.

### WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. Employees who first become members on or after January 1, 1984, may receive only limited interest on their contributions if they voluntarily terminate their service. Those who leave service with less than 5 years receive no interest; those who leave service with greater than 5 but less than 10 years receive 50% of the interest credited.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

#### ORDINARY DISABILITY

**Eligibility:** Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, § 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”.

**Retirement Allowance:** Equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

#### ACCIDENTAL DISABILITY

**Eligibility:** Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

**Retirement Allowance:** 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$667.92 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, § 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member’s retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full-time student at an accredited educational institution.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### ACCIDENTAL DEATH

**Eligibility:** Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

**Allowance:** An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$312 per year, per child, payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries resulting in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death.

In addition, an eligible family member may receive a one time payment of \$100,000.00 from the State Retirement Board.

### DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000.

### DEATH IN ACTIVE SERVICE

**Allowance:** An immediate allowance equal to that which would have been payable had the member retired and elected Option C on the day before his or her death. For death occurring prior to the member's superannuation retirement age, the age 55 benefit rate is used. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child, and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full-time student, unless mentally or physically incapacitated.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase for that year, the percentage is determined based on the increase in the Consumer Price Index (CPI) used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. The first \$12,000 of a retiree's total allowance is subject to a cost-of-living adjustment. The total Cost-of-Living adjustment (COLA) for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

### METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

**Option A:** Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

**Option B:** A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

**Option C:** A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who remains unmarried for a member whose retirement becomes effective on or after February 2, 1992, or the child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up") based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system.



## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Brockton Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

June 17, 1991

The Board voted unanimously to grant full-time creditable service to all employees working twenty hours or more a week, effective July 1, 1991.

At the present time the members who work twenty hours a week have their time prorated and receive  $\frac{2}{3}$  creditable service toward retirement for every year worked.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the City Auditor who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member: Aldo E. Petronio

Elected Member: Edward P. Mack                      Term Expires: 6/30/10

Elected Member: William Parlow                      Term Expires: 6/30/09

Elected Member: Stephen H. Frederick                      Term Expires: Indefinite

Appointed Member: William Farmer                      Term Expires: 12/31/08

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:	)	
Ex-officio Member:	)	\$10,000,000 (Fiduciary Liability)
Elected Member:	)	AIG
Appointed Member:	)	\$8,000,000 (Employee Dishonesty)
Staff Employee:	)	National Union Fire Insurance

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the Buck Consultants as of January 1, 2007.

The actuarial liability for active members was	\$182,658,289
The actuarial liability for retired and inactive members was	<u>238,552,679</u>
The total actuarial liability was	421,210,968
System assets as of that date were	<u>375,863,460</u>
The unfunded actuarial liability was	<u>\$45,347,508</u>
The ratio of system's assets to total actuarial liability was	<u>89.2%</u>
As of that date the total covered employee payroll was	\$72,260,162

The normal cost for employees on that date was 8.2% of payroll

The normal cost for the employer was 5.7% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.0% per annum  
 Rate of Salary Increase: 4.8% Varies by Group and Service

### GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2007

Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Accrued Liability ( b )	Unfunded AAL (UAAL) ( b-a )	Funded Ratio ( a/b )	Covered Payroll ( c )	UAAL as a % of Cov. Payroll ( (b-a)/c )
1/1/2007	\$375,863,460	\$421,210,968	\$45,347,508	89.2%	\$72,260,162	62.8%
1/1/2006	\$346,311,739	\$399,505,110	\$53,193,371	86.7%	\$69,892,659	76.1%
1/1/2005	\$233,723,778	\$376,361,371	\$142,637,593	62.1%	\$69,027,871	206.6%
1/1/2004	\$208,285,714	\$359,824,966	\$151,539,252	57.9%	\$67,054,199	226.0%
1/1/2003	\$168,501,905	\$342,625,077	\$174,123,172	49.2%	\$65,031,565	267.8%

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 6 - MEMBERSHIP EXHIBIT

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Retirement in Past Years</b>										
Superannuation	54	42	44	37	32	37	29	5	37	39
Ordinary Disability	1	1	0	1	1	0	0	0	2	0
Accidental Disability	6	2	9	5	2	1	11	0	3	6
<b>Total Retirements</b>	61	45	53	43	35	38	40	5	42	45
Total Retirees, Beneficiaries and Survivors	1,209	1,222	1,276	1,282	1,229	1,281	1,274	1,226	1,223	1,282
Total Active Members	1,588	1,648	1,647	1,701	1,822	1,907	1,921	1,921	1,919	1,911
<b>Pension Payments</b>										
Superannuation	\$8,844,798	\$9,132,508	\$9,677,180	\$10,676,791	\$11,147,418	\$12,047,528	\$12,780,874	\$13,552,408	\$14,413,927	\$15,264,544
Survivor/Beneficiary Payments	741,022	3,780,964	3,947,316	926,506	954,249	1,043,113	1,060,918	1,088,500	1,108,494	1,209,414
Ordinary Disability	312,505	327,615	311,325	305,926	326,077	313,021	311,007	301,242	339,475	321,733
Accidental Disability	3,697,102	742,020	759,028	4,277,810	4,428,052	4,475,317	5,169,507	5,286,462	5,383,033	5,672,024
Other	1,161,793	1,192,398	1,204,471	1,414,884	954,914	1,234,910	1,205,249	1,316,748	1,422,585	1,707,386
<b>Total Payments for Year</b>	<u>\$14,757,220</u>	<u>\$15,175,505</u>	<u>\$15,899,320</u>	<u>\$17,601,917</u>	<u>\$17,810,710</u>	<u>\$19,113,889</u>	<u>\$20,527,555</u>	<u>\$21,545,360</u>	<u>\$22,667,514</u>	<u>\$24,175,101</u>

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